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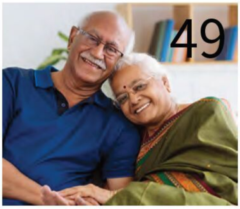

Three important things in this week's magazine

FIVE CHEAP STOCKS TO BUY NOW

By The Shares team

Using its own knowledge of the markets and data-screening techniques, Shares has identified some outstanding value opportunities

Five cheap stocks to buy now

The *Shares* team uses data screening and its own knowledge and experience to uncover a quintet of attractively valued names.

Investment Trust: Scottish Mortgage

Scottish Mortgage striving to convince investors on its long-term future after a bruising period

Managers aim to mend fences after poor performance and acrimonious departure of chair Fiona McBain

Repairing the damage at Scottish Mortgage

Managers apologise for boardroom chaos and poor performance as they look to win back investors' trust

Funds: Tyndall Real Income

Tyndall Real Income's tailored approach is delivering a top quartile return

This ambitious dividend-seller has delivered the second best returns in its sector since the market's Covid lows

The income fund with a difference

Tyndall Real Income may be small but it has big ambitions and has chalked up strong gains since the pandemic

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

cineworld
IMAX

Cineworld shares tumble 28% after shareholders likely to see value wiped-out

Marston's secures extended credit line and investors send shares up

Why JPMorgan American's managers see a 'great opportunity' for active stock pickers

hope your mother's day is full of and and

Find out why online greetings card seller Moonpig is flying high today

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Allianz
Global Investors

After banking crisis and tech rally what is next for markets in 2023?

A mixed if overall strong start to the year has left investors able to draw few definitive conclusions

As quarters go, the first three months of 2023 have been 'interesting' to put it mildly.

Having been shunned at the end of last year due to worries over valuation and rising interest rates – which reduce the value of future free cash flows – technology stocks have roared back in 2023 with the US Nasdaq Composite index gaining almost 20% after its best March since 2010.

Strength in US tech has helped compensate for weakness in banks – the KBW Bank Index is down 20% this year – and has led to the first case in 20 years of the MSCI World Index going *up* despite a 10% drop in financials according to Graham Secker and the strategy team at **Morgan Stanley (MS:NYSE)**.

Tech bulls like Dan Ives of US broker Wedbush argue the sector can continue to push higher on consumer demand (Ives believes **Apple (AAPL:NASDAQ)** will get back to a $3 trillion valuation or 20% more than its market value today).

Yet the quarter was an anomaly, driven by a weak US dollar, positive economic surprises (the data wasn't *as* bad as feared) and stable earnings forecasts, which could be about to change says Secker.

MSCI World vs MSCI World Financials year-to-date (rebased to 100)

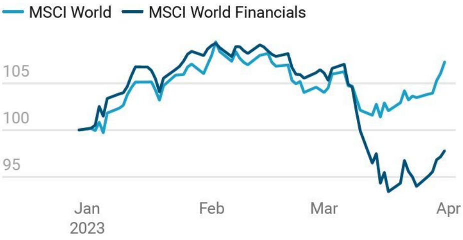


Chart: Shares magazine • Source: Refinitiv

'We expect markets to come under pressure as and when economic and earnings trends start to weaken. While this is not happening yet, history suggests that tighter credit conditions and lending standards will drag on both economic and profit growth going forward.'

Credit conditions had tightened considerably in both the US and Europe well before last month's turbulence in the financial sector, and it's far from clear US banks are out of the woods yet.

Unnerved by bank failures and in search of better returns, US depositors are pulling their savings out and piling into money-market funds, Treasury bonds and cash ETFs at the fastest rate since the pandemic.

In the first quarter, investors diverted over $500 billion of deposits into cash funds, with the trickle turning into a flood in the last fortnight, according to data from EPFR Global.

Banks have been slow to raise rates on savings but hiking them now would crush their profit margins and damage their share prices.

Yet the interest rate cycle isn't over, and while central banks are concerned about financial stability they have a bigger priority which is fighting inflation.

Core inflation, which excludes volatile items such as food and energy, is running at 4.6% in the US and 5.7% in Europe – including food prices, which have proved much harder to rein in, the rate is much higher, meaning more rate rises are coming.

And the spike in oil prices after a surprise output cut by producers' cartel OPEC at the beginning of April will only add to inflationary pressures. [IC]

Petrofac shares surge 70% after €13 billion offshore wind contract

Despite big win, energy services firm still has much to prove to the market

Sometimes contract awards are genuinely transformational for a business and, at first glance, the €13 billion award unveiled by **Petrofac (PFC)** is in that category.

The agreement, the largest in Petrofac's history, will see the UK firm work alongside Hitachi Energy to supply multiple offshore wind platforms and onshore converter stations in the North Sea on behalf of the Dutch-German transmission system operator TenneT. Its share of the €13 billion headline number will be roughly half, bringing in order intake of €6 billion between 2023 and 2026.

Before the news the consensus forecasts for 2023 revenue and earnings after tax were $2.7 billion and $26 million respectively. Even after an initial 70%-plus surge in the share price to 85p the shares were still a long way short of their 12-month highs above 160p.

Berenberg analyst Henry Tarr commented: 'This agreement with TenneT provides a material boost to the backlog and increases visibility over a significant part of future revenue. To drive further material upside in the shares, the company needs to start signing further contract awards in its conventional oil and gas markets.'

Petrofac posts its full-year results on 25 April and investors will be looking for an update on its pipeline of potential contract awards and any fresh guidance for 2023 then. [TS]

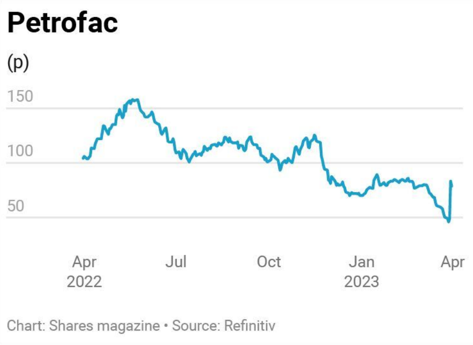


Chart: Shares magazine • Source: Refinitiv

Burford makes 65% gains on positive US court decision in YPF case

Shares soar to two-year high from one-year low in less than two days

In a remarkable turn of events, investors in litigation finance firm **Burford Capital (BUR:AIM)** have seen their shares rocket from a 12-month low to a two-year high in less than two days of trading.

At 4.14pm on 31 March, Burford issued a statement to say the Southern District Court of New York had ruled in favour of its clients in a long-running dispute with the Argentine government.

Burford shares jumped 30% to 754p and added another 200p on 3 April for a two-day gain of 65%.

The firm financed claims by two of its clients, Peterson and Eton Park, that the Argentine government's forced nationalisation in 2012 of former state-owned oil company YPF breached its 1993 listing agreement, which said YPF wouldn't be nationalised or, if it was, the government would tender for the shares at a high level.

YPF was listed in Buenos Aires and New York, and the case has been going through the US courts for over a decade.

The decision by the US judge means Burford's clients could share compensation of between $5 billion and $8.4 billion before interest, according to a press release.

While the company didn't say how much it expected to earn from backing the case, analyst Julian Roberts at investment bank Jefferies believes it could be close to 40% of any settlement. [IC]

Discover why EasyJet shares are up 57% since the start of 2023

Budget airline is benefiting from a strong booking momentum from customers

Shares in **EasyJet (EZY)** have jumped 57% over the past three months, however they are still trading 60% below their pre-pandemic high.

The company seems to be forging ahead having been the subject of takeover bids from rivals British Airways-owner **International Consolidated Airlines (IAG)** in 2022 and low-budget airline **Wizz Air (WIZZ)** in 2021.

In its recent first-quarter trading update, it cited strong booking momentum for lifting its performance by £80 million year-on-year.

This momentum is set to continue into the second quarter of 2023 as hard-pressed consumers continue to prioritise spending on holidays after being unable to get away during the pandemic.

Passenger growth rose 47% year-on-year with demand coming from the UK. EasyJet also announced 11 new routes to popular destinations.

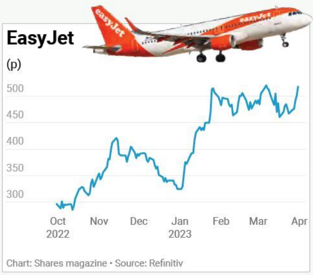


Chart: Shares magazine • Source: Refinitiv

Johan Lundgren, CEO of EasyJet, says: 'Many returned to make bookings during the traditional turn of year sale where we filled five aircraft every minute in the peak hours, which culminated in three record-breaking weekends for sales revenue this month.'

EasyJet hopes to beat current market profit expectations for full-year 2023.

In February, analysts at Deutsche Bank shifted to a more positive stance on the shares on a brighter outlook for its core UK market. [SG]

Moving HIGHER

NCC is down 40% as it battles a cybersecurity demand slowdown

Stock slumps after slashing profit guidance as orders put on ice

FTSE 250 cybersecurity consultancy **NCC (NCC)** lost 40% of its market value after slashing annual guidance for the year to 31 May 2023 last week (31 Mar). The company had anticipated 'adjusted operating profit' of around £47 million, it's now looking at between £28 million and £32 million. No wonder the share price was hammered, plunging roughly 60p to 94p.

NCC claims that 'market volatility has materially increased', slowing corporate decision-making and delaying orders. NCC also claims that tech industry layoffs and

turmoil in the banking sector post-SVB has seen cybersecurity projects canned or delayed, while inflation and higher interest rates continue to pressure IT budgets.

All of these claims are feasible, yet it does beg the question why these industry wide factors do not seem to be hurting the large US cybersecurity

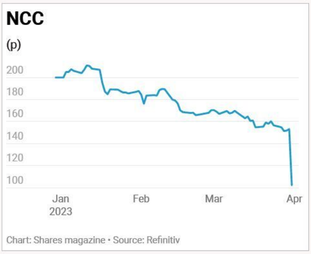


Chart: Shares magazine • Source: Refinitiv

companies that dominate the industry.

Newsflow has been largely upbeat year to date from the likes of **Palo Alto (PANW:NASDAQ)**, **Crowdstrike (CRWD:NASDAQ)** and **Fortinet (FTNT:NASDAQ)**, with the latter pair both beating forecasts in recent weeks. This will only add to the argument that UK cybersecurity is sub-scale and the likes of NCC simply not as crucial to clients as they would like to be. [SF]

DOWN in the dumps

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

12 April:
Crimson Tide, LBG Media, Everyman Media, Argentex

13 April:
Tesco

Tesco

The UK's largest grocer is performing well in the cost-of-living crisis

Supermarket group **Tesco (TSCO)** is unlikely to upset the applecart when it reports full-year earnings on 13 April.

Trading in the third quarter to 7 January was strong, with group sales up 5.7% helped by a 7.9% surge over the Christmas period.

According to the latest data from Kantar, Tesco posted 6.9% sales growth in the UK in value terms in the 12 weeks to 19 March, slightly behind the market which grew by 8.6% but enough to maintain its 27% market share.

The market is expecting the firm to post revenues of around £65.7 billion, operating profit of £2.6 billion and earnings per share of 21.2p, while Shore Capital's retail expert Clive Black has been nudging up his forecasts for this year and next year. [IC]

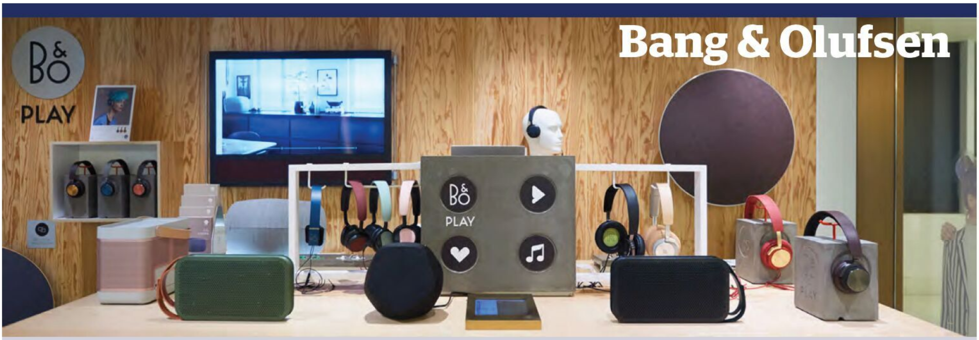
Everyman Media

Everyman should benefit from a busier 2023 release schedule

Premium cinema operator **Everyman Media (EMAN:AIM)** is due to report full year results on 12 April. Financial highlights came out in a trading statement on 23 January, so investors will be focused on management's comments regarding current trading and pace of new site openings.

While trading in the new year was encouraging, the uncertain backdrop caused the directors to take a 'measured' approach to the rate of new openings. Any improvement in tone should be well received given the shares have roughly halved over the 12 months. [MG]

Bang & Olufsen



Scandinavian consumer electronics brand hitting a wall in China

Danish high-end audio and visual products maker **Bang & Olufsen (BO:CPH)** announces its third quarter earnings on 13 April under something of a cloud.

The company has already unveiled some of the key details of the trading period in an announcement on 17 March when a 65% drop in Chinese sales and lowered margin and profit outlook for the year to 31 May saw its shares suffer double-digit falls.

The company posted an operating loss of $6.14 million for the quarter. Given these details are already out in the open, investors will be alive to any further deterioration in trading and whether the anticipated fourth-quarter improvement in Chinese sales is actually in evidence.

Management has already indicated the reopening benefit from China has not yet come through as expected. [TS]

Infosys

Investors will be watching the performance of digital revenues

Indian firm **Infosys (INFY:NYSE)**, whose shares have a US listing, will be a key focus for technology investors when it reports full year earnings on 13 April.

The company, one of the world's leading IT services brands, posted a 10% increase in third-quarter sales to $4.6 billion driven by 22% growth in digital revenues.

Year-to-date the shares have fallen 6% compared with a 3.5% loss for the **Sensex Index (SENSEX:INDEXBOM)** and a 20% gain for the Nasdaq Composite index. [IC]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

7 April:
CK Infrastructure
10 April:
Hysan Development, PriceSmart
11 April:
CarMax, Eaton Vance
12 April:
Washington Federal, Apogee
13 April:
Infosys

EUROPEAN UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

13 April:
Bang & Olufsen

BANG & OLUFSEN

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1. Alliance Trust conducted a survey via Opinium Research, January 2022.
2. The Profit from Patience Report, Alliance Trust, September 2022 alliancetrust.co.uk/patience

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Buy leading Swiss healthcare firm Lonza for its high quality defensive growth

Company is the preferred global partner to pharmaceutical, biotech, and nutrition markets

LONZA
(LONN:SWX)
Price: CHF 543.4
Market cap:
CHF 41 billion

Swiss healthcare company **Lonza (LONN:SWX)** is a great quality business giving investors defensive exposure to a fast-growing sector.

With inflation subsiding and the Federal Reserve likely close to the end of its tightening cycle, Morgan Stanley's equity strategist Graham Secker believes the US yield curve is likely to see a 'bull steepening' which historically has been bad news for stocks.

Bull steepening refers to the yields on shorter dated bonds falling relative to longer dated yields. With the MSCI Europe Quality index underperforming over the last three years, its weakest in over a decade, Secker argues now looks like a good time to add to quality stocks.

Lonza is a world leading contract development and manufacturing organisation which dates to 1897.

It operates as an outsourcing partner for biotech and pharma firms across the full spectrum of services from contract manufacturing and logistics to pre-clinical trials.

A key advantage of its business model for investors is that it gives exposure to fast growing biotech without being exposed to binary risks associated with individual clinical trials.

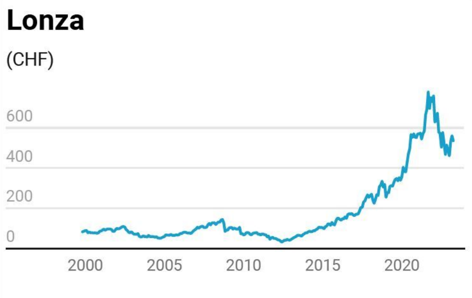

Chart: Shares magazine • Source: Refinitiv

In addition to fast growth, Lonza's sales and earnings tend to be more stable owing to the long-term contracts in commercial contract manufacturing which typically last 10 years.

The company has underperformed the market over the last 12 months bringing its valuation down to attractive levels. Though investors should expect to pay a premium price to the market average to reflect the quality and growth on offer.

A year ago, the shares were trading on 40 times expected earnings and have subsequently dropped to 35 times, representing a discount to peers.

Marcel Stotzel who manages the **Fidelity European Trust (FEV)** told *Shares* the team have been patiently waiting for Lonza's valuation to drop enough to present a long-term buying opportunity which happened at the start of 2023, allowing the fund to add a new position.

SUSTAINABLE GROWTH AND SHAREHOLDER RETURNS

Management said the company remains on track to deliver medium term guidance of low teens sales growth and a core EBITDA (earnings before, interest, tax, depreciation and amortisation) margin in the 33%-35% range.

The business throws off a lot of cash. In 2022 it generated 18% of free cash flow as a proportion of sales.

The board believes it makes sense to pay excess capital back to shareholders via buybacks when the shares are attractive. Therefore, Lonza said it will start a CHF 2 billion share buyback in the first half of 2023 in addition to paying dividends.

Dividends have grown at a compound annual growth rate of 8% a year over the last decade. [MG]

WAG Payment Solutions is a great growth opportunity at a reasonable price

Transport solutions platform operator has potential for 50%-plus gains

WAG PAYMENT SOLUTIONS
(WPS)
Price: 95.4p
Market cap: £647.6 million

Investors have been betting that the end is in sight for the cycle of interest rate hikes, with higher risk growth stocks gradually coming back into favour. But you don't need to be cavalier with your investing approach, there is still excellent value to be found among growth stocks.

Most readers are unlikely to know **WAG Payment Solutions (WPS)** yet this is a FTSE 250 company expected to grow revenue and earnings at a yearly average of 30% and 40% over the next two years. On Peel Hunt earnings forecasts, the shares trade on a 2023 price to earnings multiple of 11.8, falling to 8.6 in 2024.

Founded in 1995 by chief executive Martin Vohánka, WAG operates a pan-European payments and mobility platform focused on the commercial road transport, or CRT industry. Think streamlined card payments for fuel and road tolls, through a network of around 15,500 points across 30 European countries.

The CRT industry is large, fragmented, and inefficient. According to the European Automobile Manufacturers' Association, there are about 6.2 million trucks in circulation across the European Union, and recent years have seen WAG launch an ambitious acquisition strategy designed to add volume and value to its largely small and medium-sized fleet customers.

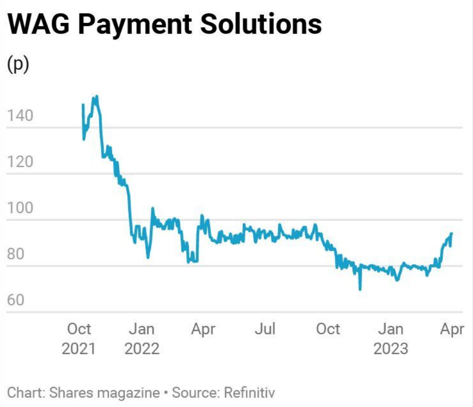

Chart: Shares magazine • Source: Refinitiv

New services like payments for alternative fuels (LNG, for example), fleet management, and automated VAT tax refunding and cross-border customs charges have been built into the platform, helped in part by acquisitions, including Webeye and JITpay in 2022, and in March 2023, Polish peer Inelo for an initial €294 million.

This means that for the rest of 2023 WAG will largely focus on integrating those new businesses and extracting cross-sell value from the enlarged company.

It's money well spent. Return on capital employed typically floats around the mid-teens to low 20%. Strong cash generation should also see rapid deleveraging of the balance sheet in the coming years. Peel Hunt estimates free cash flow of nearly €28 million and €75.7 million in 2023 and 2024 respectively, slashing net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) from a forecast 2.6-times (end 2023) to 0.8 a year later.

Despite WAG's many moving parts, execution has been handled well by a management team that *Shares* perceives as sensible with its ambitions. Continuing in a similar vein gives us confidence that the share price could meet or beat analysts target levels of 145p (Peel Hunt) over the next 12 months or so. [SF]

Medica enters 2023 with good momentum, keep buying

Further contract renewals, potential for new awards and expanding services should underpin growth

Medica (MGP:AIM) 156.4p

Loss to Date: -4.6%

We highlighted the attractions of teleradiology services firm **Medica (MGP:AIM)** on 9 March following a significant drop in the valuation of the shares despite the business doubling in size over the last five years.

The shares trade on a free cash flow yield of 5.8% according to Numis and offer the prospect of mid-teens profit growth over the next two years.

Encouragingly the shares reacted positively to the full-year results released on 29 March which were ahead of expectations, but remain slightly below our entry price.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

The company said current trading had got off to a strong start underpinned by new contract wins. It has acquired a small UK business which trains radiologists internationally which should support potential new hires.

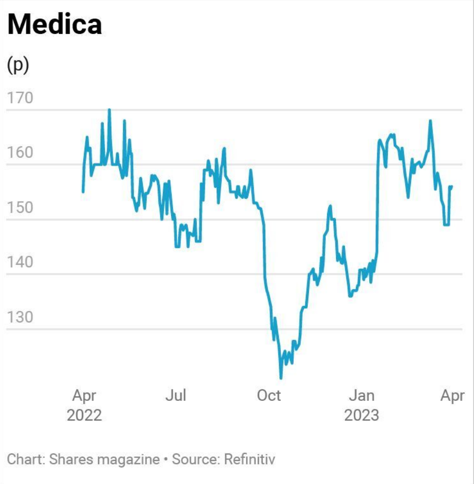

Chart: Shares magazine • Source: Refinitiv

The US division RadMD has made a bolt-on acquisition to provide expanded radiologist reader capacity to support its growth ambitions.

After reporting a strong conversion of its order book to revenues RadMD had a combined risk adjusted pipeline and order book of over $63 million at the end of 2022, which is expected to convert to revenues over the next three years. This means 75% of expected RadMd's 2023 revenues are already underpinned.

Lastly the firm said its Australian joint venture MedX won its first out of hours contract and is exploring strategic partnerships in the Middle East and more widely overseas.

The training and development of radiologists outside the UK is expected to help develop a network of international radiologists at MedX.

WHAT SHOULD INVESTORS DO NOW?

Medica is well positioned to deliver growth as its increases reporting capacity in the UK and Ireland to reduce backlogs. In addition to organic growth the company continues to seek acquisitions to increase the scale and breadth of its services.

The valuation does not reflect Medica's growth potential or leading market position. We remain positive. [MG]

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FIVE CHEAP STOCKS TO BUY NOW

By **The *Shares* team**

Using its own knowledge of the markets and data-screening techniques, *Shares* has identified some outstanding value opportunities

ONE WAY TO reduce the risks associated with less forgiving markets is to ensure you buy companies at the right valuation. With this in mind *Shares* has conducted a screening exercise of the market to identify stocks which in our view are too cheap and therefore represent attractive investment opportunities.

After running the numbers on discounted stocks with earnings momentum and firms which look cheap relative to their cash flow, the *Shares* team did further research, identifying five companies which have the right qualities and catalysts to provide confidence they will not remain undervalued indefinitely. Keep reading to discover our selections.

CENTRAL ASIA METALS
(CAML:AIM) 235p

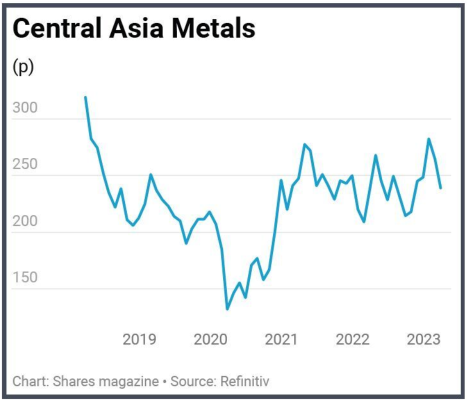

Central Asia Metals

Chart: Shares magazine • Source: Refinitiv

Over time **Central Asia Metals (CAM:AIM)** has built a track record of delivering consistent cash flow from its low-cost operations. This in turn underpins generous dividends. We think a negative share price reaction to a mixed set of 2022 results has created an attractive opportunity to buy the stock at a good price.

Based on consensus forecasts for 2023, Central Asia offers a dividend yield of 6.4% and trades on a price to earnings ratio of eight times. Its longstanding policy is to pay 30% to 50% of operating cash flow, less capital expenditure.

The company has two main assets: Kounrad where it reprocesses old mine waste to recover copper and has a licence to run the project until 2034; and Sasa, a lead/zinc mine in North Macedonia.

Numbers for 2022 were hit by a $55.1 million impairment charge at Sasa thanks to lower volumes, higher costs and lower lead prices. However, the company ended the year with cash of $66.1 million and the dividend was flat at 20p, representing 47% of cash flow.

Investment bank Berenberg comments: 'We would look through the impairment and focus on the underlying quality of the assets, and the strong free cash flow generation and dividends from the company.'

Central Asia Metals is on the lookout for acquisitions to drive growth, backed by its strong balance sheet. Berenberg believes a potential target could be the Carajas copper-gold assets in Brazil, currently held by **OZ Minerals (OZL:ASX)**.

Large miner **BHP (BHP)** is set to complete a takeover of OZ Minerals in the near term and Berenberg believes these assets are too small to be material for BHP.

It concludes: 'We think that Central Asia Metals, with strong earnings and free cash flow generation and an under-levered balance sheet, is well placed to bid for these assets, which are guided to produce 13-16,000 tonnes of copper and 11-13,000 ounces of gold in 2023.'

Central Asia provided production guidance for 2023 of between 13,000 and 14,000 tonnes of copper, 19,000 to 21,000 tonnes of zinc-in-concentrate, and 27,000 to 29,000 tonnes of lead-in-concentrate. [TS]

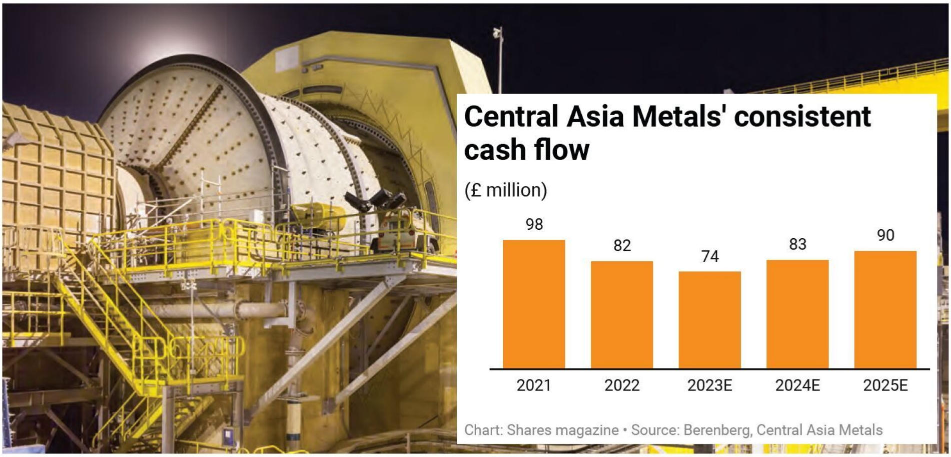

Central Asia Metals' consistent cash flow

Chart: Shares magazine • Source: Berenberg, Central Asia Metals

KITWAVE
(KITW:AIM) 274.5P

Independent food and drinks wholesaler **Kitwave (KITW:AIM)** looks like a bargain relative to its growth potential and the quality of the business.

The shares trade on 10.6 times expected earnings per share to October 2023 and a dividend yield of 4% according to analysts at Canaccord Genuity which looks stingy against a forecast 13% growth in sales and 24% increase in expected pre-tax profit.

Since the company floated on the AIM market at 150p per share in May 2021 analysts have had a hard time keeping up with the growth in the business which has resulted in a strong increase in earnings revisions. This is usually a good precursor of share price outperformance.

For example, adjusted EBITDA (earnings before interest, tax, depreciation, and amortisation) for the financial year ended 31 October 2022 doubled to £29.5 million which is 40% ahead of Canaccord Genuity's estimate made at the time the company joined the stock market.

Growth in 2022 was driven by recovery from the pandemic as volumes and trading conditions improved which contributed to organic growth in sales of 27% driven by price (up 16%) and volume (up 12%).

The acquisition of MJ Baker added a further 5% to sales growth for the year. Management said growth has continued into the first quarter of the 12-month period to 31 October 2023 which bodes well for the rest of the year.

Kitwave sells and delivers everything from confectionery, soft drinks and snacks to tobacco, beers, wines, groceries, and frozen and chilled food, delivering to a diverse 38,000-strong UK customer base spanning convenience stores, pubs, vending machine operators and foodservice providers.

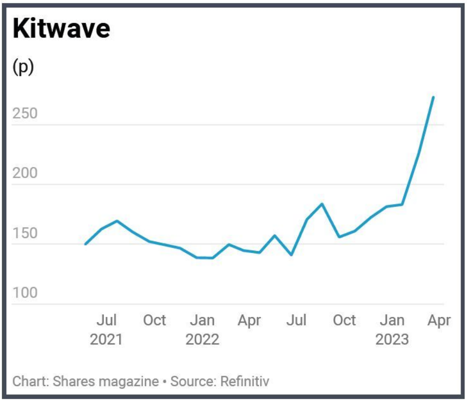


Chart: Shares magazine • Source: Refinitiv

The company's competitive advantages include an extensive depot network facilitating next-day delivery within 25 miles of a depot and three-day delivery slots nationwide.

And the company typically carries 23 days of stock to ensure it can fulfil orders even in the event of inbound supply chain delays. Over the last 35 years the firm has built relationships with market leading suppliers to drive product allocation advantages.

Kitwave's strategy is to complement organic growth with bolt-on acquisitions in a highly fragmented market. It has a successful track record of acquiring and integrating businesses.

The company believes it has a significant market opportunity to continue growing its roughly 2% market share. [MG]

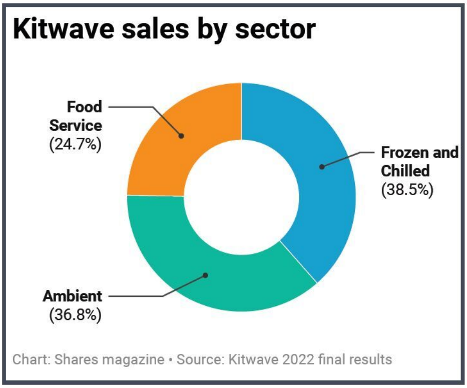


Chart: Shares magazine • Source: Kitwave 2022 final results

MARKS & SPENCER (MKS) 157.7P

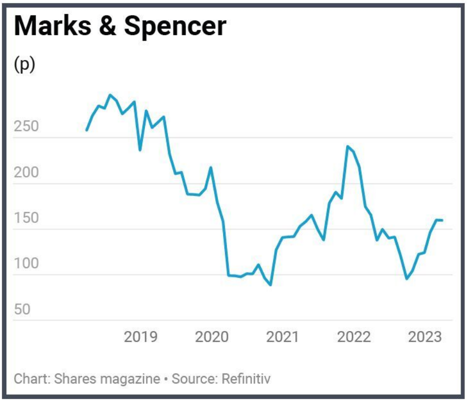


Chart: Shares magazine • Source: Refinitiv

Despite participating in the broader sector rally which started towards the back end of last year, British retail bellwether **Marks & Spencer (MKS)** remains lowly valued and is attracting positive earnings revisions from analysts.

Marks & Spencer has rediscovered its mojo, having built on better-than-expected festive trading by announcing a near half a billion-pound investment to open new stores that the FTSE 250 firm says is 'core' to its aim of becoming the UK's leading omnichannel retailer. In the face of a tough consumer backdrop of high inflation, rising interest rates and a cost-of-living squeeze, Marks & Spencer's Christmas trading update (12 January 2023) confirmed positive momentum with the retailer gaining market share in food, clothing and home in the 13 weeks to 31 January 2023. Like-for-like food sales increased by 6.3% as Marks & Spencer not only outperformed the market but generated its largest ever Christmas sales.

Clothing and home like-for-like sales grew by 8.6% as the firm's market share topped 10%, its highest level in seven years. The outlook for the consumer is less bad than feared, with UK unemployment remaining subdued and consumer confidence lifting from lows, while cost and currency headwinds are easing for the FTSE 250 shopkeeper steered by CEO Stuart Machin.

Accordingly, Shore Capital has upgraded its year to March 2023 pre-tax profit forecast by more than 6% to £431 million for EPS (earnings per share) of 15.9p, and upped its 2024 pre-tax profit estimate by more than 30% to £415 million, implying EPS of 14.5p. Based on these estimates, Marks & Spencer trades on a grudging forward price-to-earnings multiple of 10.9 for this year falling to a single digit 9.7 times based on the broker's 2025 pre-tax profit and EPS estimates of £460 million and 16.2p. Shore Capital also points out Marks & Spencer now has 'a sound balance sheet with good liquidity' and has even shaded in a return to the dividend list with a 3.5p payout for the year just-ended. 'Share gains and margin expansion will need to be the key levers of M&S's future earnings in low growth UK clothing and food markets,' said the broker. [JC]

MARKS & SPENCER
50% OFF
SALE

MORGAN SINDALL (MGNS) £16.64

A rating of just 7.4 times consensus forecast 2023 earnings is too cheap for a company with **Morgan Sindall's (MGNS)** qualities. Once you factor in a generous dividend yield of 6.2% the value opportunity looks very compelling.

Granted the construction backdrop is not overwhelmingly positive but its involvement in infrastructure and regeneration projects means it is active in areas with robust dynamics, particularly in the medium term.

The company has seven businesses operating across five different areas: construction and infrastructure, office fit-out, property services, partnership housing and urban regeneration. A decentralised structure enables individual parts of the group to make their own decisions and drive innovation in their respective markets.

The company is seeing strong demand in fitting out offices as working spaces are reconfigured to make them fit for new requirements coming out of the pandemic and fresh environmental standards.

While the fit-out arm has limited earnings visibility, the other parts of the group benefit from long-term contractual relationships which make their revenue streams relatively predictable. On this basis, investors can have some confidence in forecast earnings growth of 8% for 2023.

We like the focus on organic growth, the habit of being conservative with guidance and the transparency of its results which typically only have a few exceptional items. The company can also count a strong management team, with chief executive John Morgan a founder of the company who also served as chair before returning as boss in 2012, and an impressive track record, among its attractions. In summary, Morgan Sindall ticks all the boxes you would want from a public company.

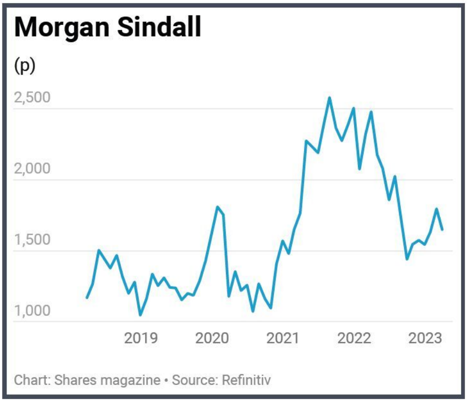
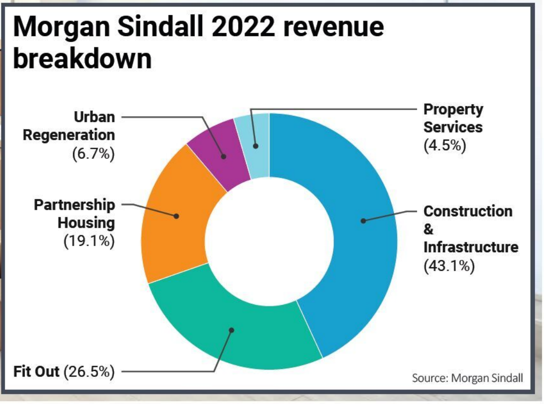

Morgan Sindall

Chart: Shares magazine • Source: Refinitiv

Numis analyst Jonathan Coubrough says the company has 'high medium-term organic growth potential, backed by an average daily net cash position equivalent to a third of the market cap'.

As at the beginning of 2023, net cash totalled £355 million. This financial strength should help support a growing dividend, with the pay-out hiked 10% when the company announced its full year results on 23 February. [TS]


Morgan Sindall 2022 revenue breakdown
Urban Regeneration (6.7%)
Property Services (4.5%)
Partnership Housing (19.1%)
Construction & Infrastructure (43.1%)
Fit Out (26.5%)
Source: Morgan Sindall

REDDE NORTHGATE (REDD) 348P

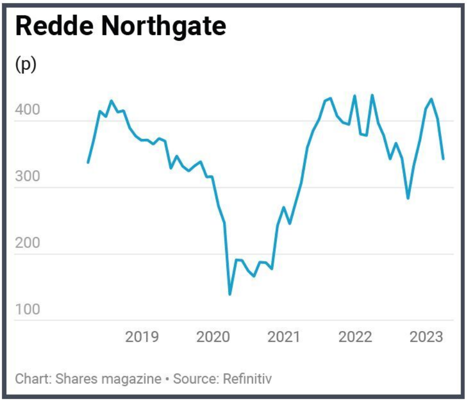


Chart: Shares magazine • Source: Refinitiv

It's rare for mergers to add value for investors, as typically the talked-about 'synergies' and cross-selling opportunities fail to live up to expectations, but in the case of van hire and insurance services group **Redde Northgate (REDD)** bringing the two firms under one roof has been an unqualified success.

The group has its own fleet of over 130,000 vans for rent in the UK and Spain and manages over 600,000 vehicles for other firms, making it one of the biggest vehicle operators in Europe.

In addition, it offers a full range of 'vehicle lifecycle' services from managing accident claims to recovery, repair, maintenance, disposal and even advising on the EV (electric vehicle) transition.

Its scale and its integrated platform means it can cater to the increasing number of businesses who want to outsource management of their fleet.

In the six months to the end of October 2022, revenue excluding vehicle sales jumped 20% to £628 million, above market expectations, with just over half of group turnover coming from the claims and services business.

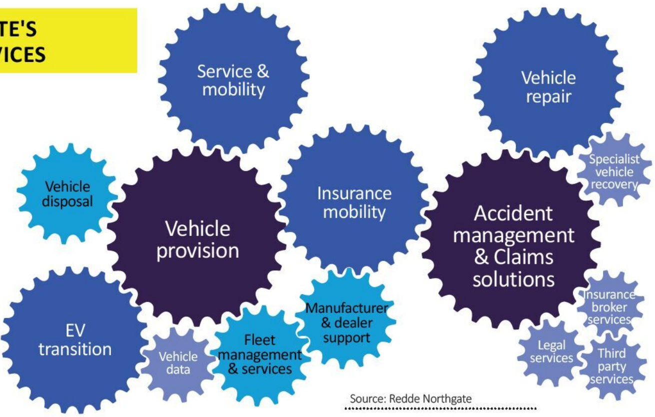
Profit from the rental business rose 11% to £54 million, despite a restricted supply of new vehicles, while profit from the service side rose over 16% to £70.4 million as traffic levels returned to pre-pandemic levels and several large new wins contracts kicked in.

The firm's access to LCV (light commercial vehicle) manufacturers and improved supply means it can take on more customers, both private and corporate, while a scarcity of garage repair capacity and the desire for a cost-effective outsourced solution is driving more business its way.

The firm suggested at the half-year stage that full-year trading would be 'modestly' ahead of forecasts, leading analysts to upgrade their estimates and price targets for the stock.

Numis has a fair value of 500p on the shares and highlights the low valuation and attractive dividend yield, while Barclays has a 556p price target and sees 'good scope for further underlying growth' due to revenue synergies and market share gains for Redde 'which should drive improving returns and a further re-rating'. Currently the shares trade on 6.6 times forecast 2023 earnings and yield 6.7%. [IC]

REDDE NORTHGATE'S INTERLINKED SERVICES


Service & mobility
Vehicle repair
Specialist vehicle recovery
Vehicle disposal
Vehicle provision
Insurance mobility
Accident management & Claims solutions
Insurance broker services
Manufacturer & dealer support
EV transition
Vehicle data
Fleet management & services
Legal services
Third party services

Source: Redde Northgate

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Scottish Mortgage striving to convince investors on its long-term future after a bruising period

Managers aim to mend fences after poor performance and acrimonious departure of chair Fiona McBain

The managers of **Scottish Mortgage Trust (SMT)** Tom Slater and Lawrence Burns are in full blown apology mode after a recent boardroom spat which saw its chair of 14 years Fiona McBain step down (21 March) with senior independent director Justin Dowley taking over.

'We are very sorry to the shareholders; it's not helpful to anybody seeing the trust in the headlines. My experience of the board of Scottish Mortgage is one of independence, strong governance, and appropriate challenge to the managers over the years. I will go one step further and say they've helped us to get better', said Slater at a hastily arranged webinar on 29 March.

WHAT HAPPENED?

A dispute arose between non-executive director Amar Bhide and chair McBain after he questioned Scottish Mortgage's exposure to unquoted companies and other issues around the appointment of new board members.

As of 28 February 2023, 29% of the portfolio was in 52 private investments, up from 19% in September 2021 and 25% in March 2022. The cap for private investments is 30%.

After Bhide raised his objections he told the *Financial Times* that Scottish Mortgage asked him to resign on 17 March. Bhide has now left the board and is no longer a director.

REJECTING THE WOODFORD COMPARISONS

Throughout the webinar both Slater and Burns were insistent that Scottish Mortgage Trust was 'not another Woodford'. As a reminder one-time star fund manager Neil Woodford saw his reputation shattered as his flagship equity income fund was wound up after a flood of redemptions. Woodford had invested in lots of unquoted assets which were then difficult to sell when he needed to hand investors back their cash.

Slater says: 'Our trust focuses on big established companies worth £10 billion, the average company in the Woodford fund was approximately valued at £200 million.

'The second [big] difference is our structure and Woodford's fund. We are a closed-ended vehicle, Woodfords's was open-ended.' This difference in

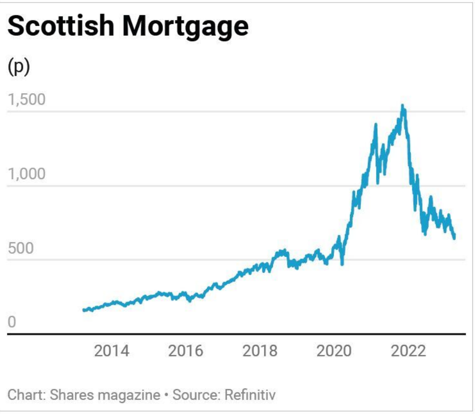

Scottish Mortgage

Chart: Shares magazine • Source: Refinitiv structure is important because, as a listed entity, Scottish Mortgage does not have to worry about the impact of redemptions.

HAVE LESSONS BEEN LEARNED ON PRIVATE COMPANIES?

Burns observed that 18% of the private companies in the portfolio are cash generative compared to 13% of the listed companies in the trust's portfolio and said in 2022 Scottish Mortgage invested a further £260 million into private companies and will continue to do so. Slater says that it was shareholders in the first place who were keen on increasing the limit on the number of private companies which could be held from 25% in 2020 to what it is now 30%.

'We have [Burns and myself] little to do with the valuations of private companies. In fact, S&P Global does a valuation assessment. Then it goes to a team of accountants at Baillie Gifford, then through external audits for quarterly revaluations,' says Slater.

'What is more, private companies like Musk's SpaceX have the potential to generate substantial cashflow for shareholders in the future if parts of that business IPO, for example Starlink – a satellite internet constellation operated by SpaceX,' says Burns.

LOOKING TO THE LONG TERM

Slater and Burns remain upbeat as they sought to reassure shareholders of the benefits of investing in the trust for the 'long term'.

The pair focused on the holdings of the trust throughout the webinar as well as side-stepping several questions from irate shareholders (fielded online by a moderator) about the recent performance of the trust.

Over the past 12 months, its shares have fallen nearly 40% to 656p – a far cry from their peak of above £15 in November 2021. And having frequently traded at a premium to NAV (net asset value) they are now at a near-20% discount, which reflects scepticism about the true valuation of the trust's unquoted holdings.

Both Slater and Burns admit the trust's performance has been less than impressive over the past 18 months, but emphasised that it has 'delivered' over the past decade.

On a 10-year view the trust has achieved a share price total return of 323% compared with 209.3% for the Global AIC Sector. Burns says: 'We hope the trust will recover and we as managers can help with that journey.'

PUTTING FAITH IN FOUNDER-RELATED BUSINESSES

Burns says what will 'save' the trust is investing in exceptional companies in the long-term and 'identifying these opportunities' as they have done investing early in the likes of gaming platform **Roblox (RBLX:NYSE)**, Elon Musk's privately-held space technology firm SpaceX, biotechnology firm **Moderna (MRNA:NASDAQ)** and **Tesla (TSLA:NASDAQ)**.

Slater says: 'We tend to ignore macroeconomic issues, like rising interest rates which have come to an end now [we think]. We are stock pickers focusing on company fundamentals, and we are not trying to time the markets.

'The trust has faith in firm founder managers like Elon Musk and Tesla. Despite the pandemic, Tesla had fantastic execution and expansion which assisted profitability. These types of companies can deliver long-term value to our shareholders,' adds Slater.

> **“We tend to ignore macroeconomic issues, like rising interest rates which have come to an end now [we think].”**

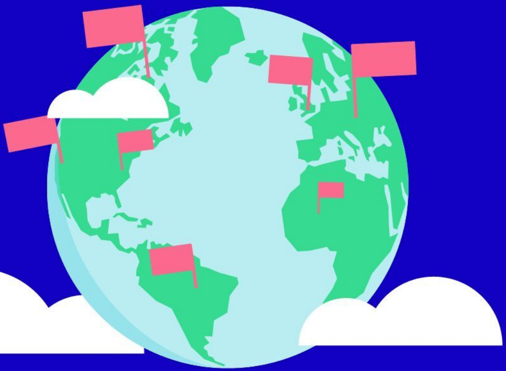
Burns also picks out Moderna which is a 'transformational healthcare' business where 'technology meets healthcare.'

'The Moderna vaccine during the pandemic saved one million lives, and the firm is using their platform to development other vaccines for flu, respiratory syncytial virus (RSV) and a personalised cancer vaccine.'

Despite these company 'success stories' Slater and Burns admit they have made mistakes over investments in China like ByteDance, owner of social media sensation TikTok.

Although their investment in ByteDance is generating positive cash flows, there is geopolitical risk investing in China, as well as a tough regulatory environment, which the managers concede can 'limit the upside'.

By **Sabuhi Gard** Investment Writer



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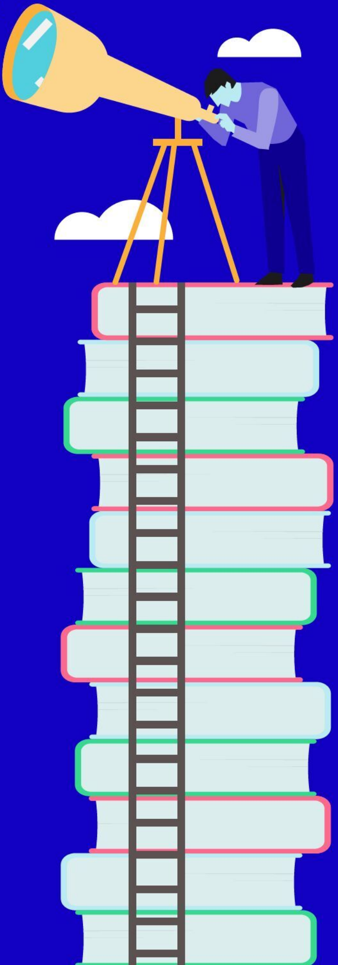
Discrete Performance*	Q4 2017 Q4 2018	Q4 2018 Q4 2019	Q4 2019 Q4 2020	Q4 2020 Q4 2021	Q4 2021 Q4 2022
Share price	-8.1%	22.1%	2.7%	11.9%	-9.8%
Net Asset Value**	-8.4%	21.3%	4.2%	15.8%	-10.2%
Benchmark#	-6.6%	20.1%	9.5%	19.9%	-6.2%

This financial promotion was approved by Witan Investment Services Ltd FRN: 446227 on 13 February 2023. Please note that past performance is not a guide to future performance. Witan Investment Trust is an equity investment. The value of an investment and the income from it can fall as well as rise as a result of currency and market fluctuation and you may not get back the amount originally invested.

*Source: Morningstar/Witan. Total return includes the national investment of dividends. ** The Net Asset Value figures value debt at fair value. # Witan's benchmark is a composite of 85% Global (MSCI All Country World Index) and 15% UK (MSCI UK IMI Index). From 01.01.2017 to 31.12.2019 the benchmark was 30% UK, 25% North America, 20% Asia Pacific, 20% Europe (ex UK), 5% Emerging Markets.



TUI: How its €1.8 billion rights issue works and options for shareholders

The travel operator is raising cash to help reduce its debt pile

TUI
TUI.COM
G-OOBE

Travel operator **TUI (TUI)** has announced a €1.8 billion fundraising to help reduce a hefty debt pile accumulated during the pandemic.

Known as a 'rights issue', the exercise involves shareholders making the decision whether or not to buy discounted shares in the group.

As is the case for most major rights issues, TUI's fundraise is fully underwritten by banks which will step in to buy any rights not taken up by existing shareholders.

Shareholders must take one of four routes:

1. **Buy some or all your allocated stock**
2. **Sell all your rights**
3. **Sell some of your rights and potentially use the proceeds to buy some of the cut-price shares (known as 'tail swallowing')**
4. **Do nothing**

WHY DO COMPANIES UNDERTAKE RIGHTS ISSUES?

Rights issues can be an effective way for companies to raise new money for large acquisitions or strengthen their balance sheet.

The fundraising method was heavily used by companies in the wake of the great financial crisis. Banking group **Lloyds (LLOY)** undertook a £13.5 billion issue in 2009, for example. More recently **EasyJet (EZJ)** was one of several firms to use a rights issue to rebuild its balance sheet coming out of the pandemic.

Investors do not always welcome rights issues. Their discounted price tends to pull down the market price of a stock, so shareholders typically take a hit to the value of their investment.

Many companies would argue that is the price to pay to allow their business to grow – and that the longer-term benefits will more than compensate for the short term hit to the value of their shares.

WHAT HAPPENS NEXT IF YOU'RE INVESTED IN A FIRM HOLDING A RIGHTS ISSUE?

You need to ascertain why your investee company is asking for more money. Does the desired cash only provide a quick fix to a financial problem and not a permanent solution?

That is the key question for investors in TUI – will the money raised and the planned €1 billion reduction in its €3.4 billion net debt be sufficient? A portion of the expected €1.75 billion net proceeds from the issue will go towards paying back state aid to the German government.

The travel company hopes the reduction in its borrowings will reduce interest costs by between €80 million and €90 million on an annual basis. This would free up cash to invest for a recovery in demand and to take market share from ailing rivals.

If the rights issue is not a permanent solution, you must consider whether the company can generate the extra cash needed longer term from operations. Or will it have to take more drastic action such as selling assets, borrowing more money or tapping shareholders for additional cash?

FOUR OPTIONS FOR TUI INVESTORS AND THE COMPANY'S RIGHTS ISSUE

TAKE UP YOUR RIGHTS

Shareholders are typically offered the right to buy a set number of shares in proportion to the number they already hold. TUI is offering eight new shares at €5.55 each for every three existing TUI share held in the business as of 28 March. The official deadline to subscribe for the new shares is 17 April but for most investment platforms the actual deadline is 12 April.

Listed in Germany, TUI is traded through DIs (depositary interests) on the UK stock market. Each DI represents an entitlement to one TUI share. The subscription price in euros on the rights issue will be converted to sterling after a shareholder has elected to participate. For illustrative purposes we have used the euro/sterling exchange rate at the time of writing, which implies a subscription price of 488p.

For example, someone with 300 TUI shares would have the chance to buy 800 new shares costing £3,904 in total.

SELL ALL YOUR RIGHTS

The rights associated with shares in a rights issue can be traded in the market and have an intrinsic value. These are known as nil-paid shares or nil-paid rights.

Shareholders can sell their rights to someone else and receive some money, all without having to sell their existing shares.

In general, most stockbrokers do not have the capability to let you trade the rights online, so you will probably have to place an order over the phone.

To calculate the price at which the shares could trade after a rights issue, analysts seek to calculate something called the TERP or theoretical ex-rights price. This is based on a combination of the value of the existing shares at the share price before the rights issue was announced and the new shares at the subscription price.

In reality the actual share price will also be affected by what motivated the rights issue and the company's particular circumstances at that time. In TUI's case this is further complicated by the 30.9% holding of Russian shareholder Alexey Mordashov.

His shares are frozen due to sanctions and he cannot participate in the rights issue. As a result, the number of new shares being issued relative to existing shares is not in the 8:3 ratio you would expect based on the rights issue offer of eight new shares for every three held. We have used TUI's own calculation of TERP which is €9.23 or 812p in sterling. Mordashov's shareholding will drop to 10.9% after the rights issue with an effective value transfer to other shareholders.

What if you want to sell your rights? The indicative value would be the difference between the theoretical ex-rights price and the subscription price which is 324p per share in the case of TUI (812p-488p). Someone holding 300 shares would net £2,592 in cash by selling their rights (324p x 800 new shares).

SELLING SOME RIGHTS TO PAY FOR THE COST OF SOME NEW SHARES

An alternative is to sell some of the rights to cover the cost of some of the new shares you buy in the rights issue.

Here, you would sell enough of the nil paid rights to take up the balance of your entitlement under the rights issue, using the net proceeds of the sale of the nil paid rights to enable you to do so.

You would be required to make no further investment to take up the balance of your rights.

DO NOT TAKE UP THE RIGHTS

You could allow your rights to lapse. If the TUI share price is trading below the offer price of 488p on the subscription deadline, the nil-paid rights would expire worthless.

But if they are trading above 488p then you may receive a cash payment per nil-paid share equivalent to the TUI share price less the offer price.

By **Tom Sieber** Deputy Editor

TIMETABLE

24 March 2023
Publication of this prospectus and the German prospectus

27 March 2023
Subscription offer published

28 March 2023
Subscription period begins; existing shares of the company will be quoted ex-subscription rights on the London Stock Exchange

29 March 2023
Record date for subscription rights entitlements

12 April 2023
Subscription rights cease trading

17 April 2023
Subscription period ends

24 April 2023
Commencement of trading in the new shares

Source: TUI

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The world is filled with challenges and volatility, with a war on European soil and rising interest rates alongside high levels of inflation. Despite the challenging market conditions, we continue to find good investment opportunities.

Our proprietary research process with a focus on mispriced assets that trade at a discount to net asset value enables us to filter through the numerous companies, to distil the market down to a more manageable universe.

AVI's well-defined, robust investment philosophy helps to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated high conviction core portfolio of c. 30[±] investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship and actively engage with the managers, board directors and, often, other key shareholders. Our aim is to be a constructive, stable partner and to bring our expertise - garnered over almost four decades of investing in asset backed companies - for the benefit of all. The approach is benchmark-agnostic, with no preference for a particular geography or sector which allows us to seek out the best opportunities anywhere in the world.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

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‘Gross Assets at 31 January 2023
±As at 31 January 2023, holdings >1% of NAV

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AVI
Asset Value Investors

Three top picks from a leading fund manager adept at stress-testing his investments

Ken Wotton, manager of Strategic Equity Capital, highlights XPS Pensions, Inspired and Hostelworld

Ken Wotton, manager of ***Strategic Equity Capital (SEC)****, reveals how he chooses which stocks to invest in and how he continually reviews his portfolio to ensure it is suited to market conditions.*

Importantly, and by design, the businesses in our portfolios share certain characteristics centred around financial quality and mitigating downside risk.

They have very low levels of leverage or none at all, they enjoy higher profit margins, their earnings streams are stronger and more robust, and they have an operating model that is fit for purpose, even in more challenging times.

In addition, we look for businesses set to benefit from structural themes that offer attractive long-term tailwinds. That could be the increasing trend towards digital transformation, for example, or the rise of the sustainability agenda. These themes are typically non-cyclical, providing insulation from the macro backdrop.

Our portfolio review process also considers the valuation of each business compared to its sector peers – and compared to any relevant M&A or private equity transaction valuation multiples. We want to hold businesses where the current valuation provides a margin of safety.

XPS PENSIONS (XPS)

One good example of an investment that meets all of those tests is our holding in the specialist pensions consultancy and administration provider **XPS Pensions (XPS)**.

First, XPS operates in a large and structurally attractive market providing specialist advice to defined benefit occupational pension schemes; demand is robust and growing because of regulatory drivers and the increased complexity of running these schemes.

In addition, XPS enjoys an attractive market position and competitive advantage: as a leading independent consultant; it is one of the leading mid-tier providers of advice and consultancy in

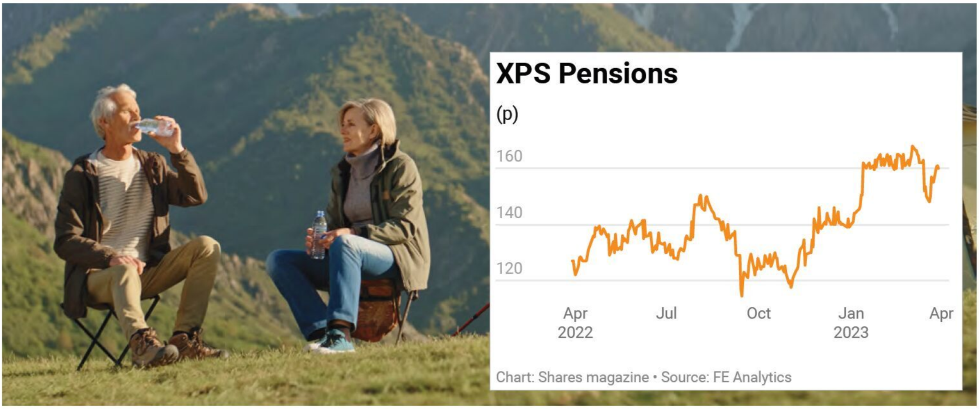

Chart: Shares magazine • Source: FE Analytics the UK pensions market, but it is also a pure-play provider; by contrast, several of its rivals are businesses owned by larger multinational groups with disparate operations.

Importantly, XPS has excellent earnings visibility – working as a retained adviser by many of its customers, a significant proportion of the business's revenues are recurring in nature, often as part of inflation-linked contractual arrangements.

It also operates with a business model that does not require significant capital; XPS boasts attractive profit margins and has the cash generation potential to support a high and sustainable dividend yield.

The final piece in the jigsaw is XPS's attractive valuation. On a high single-digit multiple of enterprise value to EBITDA (earnings before interest, taxes, depreciation and amortisation), it trades at a discount to its peers as well as to the multiples seen in M&A activity in the sector.

HOSTELWORLD (HSW)

Sector specialists that are leaders in their field can build strong brand recognition and boost customer retention over the long term, better insulating them against macroeconomic headwinds.

Hostelworld (HSW), for example, is a leading online travel agent globally, focused exclusively on the hostel segment.

Having specialised in hosteling for more than two decades, the company has collected an immense amount of long-term data around the unique preferences of its user base.

This has enabled the company to refine its customer experience and value proposition far more effectively than generalist competitors – such as online travel giant Booking.com – cementing its position as market leader in this space.

While the looming global recession will likely result in reduced consumer spend on travel, the hosteling segment is relatively low cost.

This should enable Hostelworld to deliver more resilient returns than rivals targeting the broader travel industry, whose revenues will likely be dented by reduced take-up.

INSPIRED (INSE:AIM)

Inspired (INSE:AIM) is a good example of the way in which we have sought to exploit the increased dislocation between share prices and business fundamentals.

We invested in Inspired, which provides energy advisory and sustainability services to more than 2,900 UK businesses, having identified the opportunity through our investment platform.

The business case is clearly attractive. Inspired helps its clients rise to the growing imperative to operate more sustainably – requirements that will only become more demanding – but also to manage their energy consumption more efficiently.

This is crucial to clients given the elevated levels of energy prices. It also provides Inspired with counter-cyclical qualities – businesses will

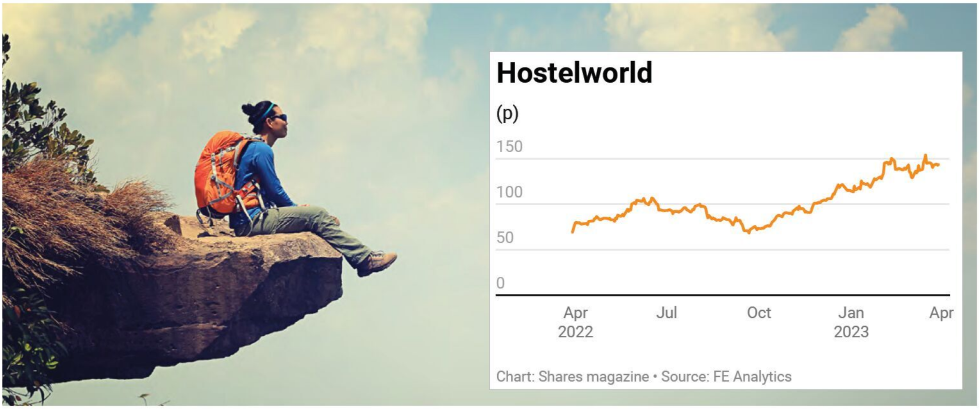

Chart: Shares magazine • Source: FE Analytics be especially focused on cost reduction during a difficult period of trading.

Importantly, Inspired has secured a high-quality management team that has extensive experience of building and exiting from businesses in this sector.

It also has an attractive financial profile – its model features high margins, low capital intensity, and growing revenue and profits; it also cash-generative with an attractive and growing dividend per share

Looking forward, there is every prospect of active consolidation in the marketplace, providing Inspired with an opportunity to grow through acquisition, as well as the potential to attract trade or private equity buyers.

In the meantime, the company's valuation provides a generous margin of safety; its shares trade at a significant discount to those of its peers, and to recent M&A transaction multiples in the sector – as well as to the company's own historical rating.

Our investment in Inspired is a good example of how the platform and capabilities we have developed to conduct such thorough risk management reviews of existing holdings can also be leveraged to deploy further capital into existing investments.

It provides a means through which to really get under the skin of potential investments – to really understand whether an apparent valuation anomaly stands up.

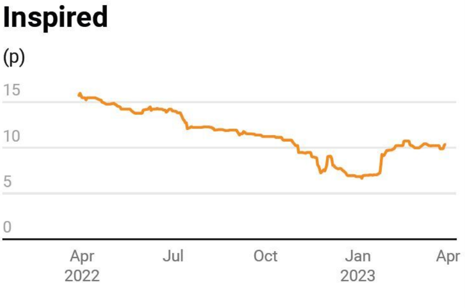

Chart: Shares magazine • Source: FE Analytics

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Why excluding stock-based compensation from profit calculations is misleading for investors

We explain what it is, why Terry Smith hates it and the threat it poses to corporate valuations

At the start of 2023, **Fundsmith Equity (B41YBW7)** boss Terry Smith went to town over the habit of some companies to strip out the impact of share-based compensation (SBC) from reported profits.

'I suspect the most pernicious effect of adjusting profits to exclude the cost of share-based compensation occurs when the management start to believe their own shtick and mis-allocate capital based upon it,' the fund manager said in his 2022 letter to shareholders.

We don't have the scope in this feature to get into the detailed nitty gritty of SBC, but we can try to give readers an outline of why Smith, and others, believe that excluding SBC results in the potential for significant overvaluation of equities.

Enterprise software firm **Salesforce (CRM:NYSE)** is one example of a stock which has attracted significant criticism for excluding its significant SBC from headline profit.

WHAT IS SHARE-BASED COMPENSATION

SBC is the practise of handing company directors, senior management and even the general workforce, shares or options to buy shares in the business as part of their remuneration. It is common in the US, particularly in innovation-heavy industries like technology and healthcare and is becoming increasingly used in the UK and Europe too.

There are very sensible reasons why. SBC schemes:

- allow young, fast-growing companies to attract high quality talent even if they couldn't afford to pay competitive cash salaries;
- contribute to employee loyalty since those employees usually have to remain with the company for a number of years in order for their stock compensation to vest;

- can align employees' interests with those of the company's owners, its shareholders.

While not as immediately obvious as salary expenses, SBC costs don't just disappear, they just transfer the economic cost to shareholders since issuing stock, either immediately or at some point in future, has the very real negative impact of diluting the value of each individual share.

ARGUING THE SBC EXCLUSION VIEW

The main argument for excluding SBC costs seems to be because option awards are not cash items. Yet there are multiple non-cash items that flow though profit, such as revenues from sales on credit, depreciation and amortisation and pension costs, for example. If they are included, why not SBC costs?

Also, the only way to offset the potential dilution of new shares is for the company to buyback the same number it issues to employees, using cash.

For example, if a company issues 1,000 shares via stock option grants, then it needs to buyback and cancel 1,000 shares to avoid any dilution. But to do this buyback requires real cash, so that stock compensation has just become a real cash expense again. The cash cost has just been transferred to a

Microsoft vs Intuit – The impact of excluding SBC

In January Fundsmith's Terry Smith offered up the example of **Microsoft (MSFT:NASDAQ)** and accounting software company **Intuit (INTU:NASDAQ)**.

The former included share compensation while the latter didn't. Adding back roughly $1.8 billion of compensation expenses to make an apples-to-apples comparison pushed Intuit's price to earnings multiple to 43 times from 28 times.

This meant Intuit trades at a 72% premium to Microsoft which wasn't apparent if investors use analysts' earnings forecasts.

different part of the income statement – but it's still there.

The other option is for a company to just kick the can down the road, dilute shareholders now, and hope there is sufficient cash generation in the future to fund the buybacks needed to offset past dilution, or to pay the cash salaries. This is the option chosen by many companies.

But whichever way a company chooses to approach this, there just isn't a way of escaping the real cost of labour. A company either pays employees in cash now, pays them in stock and spends cash to purchase equivalent shares later, or it makes the shareholders pay through dilution.

Another argument for stripping out SBC costs is because valuations are subjective and rely on valuation methodologies that depend on assumptions on the risk-free interest rate and share price volatility. Smith accepts this but argues that things like depreciation also use assumptions and estimates as well, where the expense is calculated based on the estimated useful lives of assets, for example.

'A question we would pose to companies drawing on this argument is, if you have no idea what the (say) stock option is worth, how do you decide how many options to award to your employees,' says Liberum.

Liberum is right, if a company has no idea about the value of the options they are handing out to staff, then they shouldn't be awarding stock options at all.

CASH FLOW DISTORTIONS

What about cash flow? Cash flow based stock analysis is often lauded as the most defensive, grounded, form of running the rule over a company. The mantra goes that investors should always look to cash flows because earnings can be manipulated, but cash doesn't lie. That is mostly true but while cash may not lie, it can mislead you.

The problem is that stock-based compensation inflates reported cash flow numbers. Consider that many companies choose to pay employees in stock without buying back shares to offset dilution, so technically there has been no cash out the door.

Under GAAP (generally accepted accounting principles), SBC is added back in the cash flow from operating activities, which in turn is used to work out free cash flow. Some researchers and commentators argue that share-based compensation should be reclassified from the operating activities section to the financing activities section of a cash flow statement for analytical purposes.

'We agree,' says Fundsmith's Smith. 'The decision to fund compensation to employees with shares rather than cash is a financing decision rather than one pertaining to the operations of a company. As such, a measure of cash flow from operating activities that does not benefit from adding back share-based compensation is likely more reflective of the ongoing cash generation of a company.'

This variability in treatment of SBC costs in earnings distorts comparisons with peers and it can make cash flow valuation metrics, such as EV/EBITDA and PE (enterprise value to earnings before interest, depreciation and amortisation and price to earnings) look more attractive than they are.

The key thing for investors to think about is: what is going on with the underlying business? What are the accounting numbers not showing me? It is always worth considering the business itself, not just the numbers it produces.

The author has a personal investment in Fundsmith Equity referenced in this article.

By **Steven Frazer** News Editor

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Capital at risk.

Tyndall Real Income's tailored approach is delivering a top quartile return

This ambitious dividend-seeker has delivered the second best returns in its sector since the market's Covid lows

An under-the-radar constituent of the IA UK Equity Income sector that is delivering stellar returns despite difficult market conditions is **VT Tyndall Real Income Fund (BYX0D61)**. Small at £18.9 million of assets, it is big on ambition under the stewardship of manager Simon Murphy and competitive on cost, with a lowly annual management charge of 0.35%.

Murphy took over the fund right before the pandemic struck in 2020 and assets under management are growing, despite relentless outflows from the UK market generally. VT Tyndall Real Income seeks to generate a differentiated and consistent income and capital growth by investing in UK equities. Consistently ranked first quartile under Murphy's management, the fund has generated an impressive total return of 83.3% since the FTSE 100's Covid low in March 2020 according to FE Fundinfo, making it the sector's second-best performer over this timeframe.

Murphy informed *Shares* that for most of the last three years the fund has been 'fighting against a tide of negativity' - lockdowns, inflation, war and now a banking crisis - but he has managed to 'find decent investments and make money.

'Hopefully it is just the start,' he adds.

Higher interest rates mean other asset classes offer a competing yield. Nevertheless, Murphy insists the yield on equities looks 'incredibly' attractive. 'The broader UK stock market is yielding about 3.6%, my fund is yielding about 4.2% now, so a decent premium to the market and with some good growth to come'.

WHAT DOES THE FUND INVEST IN?

Murphy avoids concentrating his income ideas in a small number of large, liquid FTSE 100 stocks. Instead, he sources the fund's income from a wider variety of stocks across the market cap spectrum through a high conviction portfolio of 30 to 40 'best ideas' with a bias towards UK mid cap stocks.

Snapshot of Tyndall Real Income

Sector	IA UK Equity Income
Launch date	Sep-15
Fund size	£18.9 million
Holdings	33
Historic yield	3.74%
Active share	87.8%
Annual management charge	0.35%

Table: Shares magazine • Source: Tyndall. As at 28 February 2023

Tyndall Real Income offers a blend of 'premium yield stocks on one hand and dividend growth opportunities on the other,' says Murphy, who targets a minimum active share – a measure of how much a fund's holdings differ from the benchmark – of 80%.

Currently, the fund's active share is around 88%, which 'puts us firmly in the top quartile of active share takers in the equity income sector,' he explains. 'Historically funds that have taken high levels of active share have delivered excess returns over time, albeit you do have to be prepared for short term periods of volatility. But longer term, the high conviction approach seems to work.'

Murphy doesn’t like the FTSE 100/FTSE 250 distinction. ‘When I say the mid-market, I mean companies that have a market cap of between £500 million and £10 billion. About 80% of our fund will be in that mid-market exposure.’

On a relative basis, the mid-market/mid-caps space has had a difficult time over the last 12 to 18 months and on that basis, Murphy is ‘even more delighted with our performance, because we’re heavily exposed there’. Performance has been even more impressive when you learn that the fund hasn’t benefited from a single takeover yet, which is one of Murphy’s ‘real bugbears.

‘Corporate activity has gone a bit quiet in the last six to 12 months because of more difficult markets, but do I expect there to be more mid cap takeover activity because the valuations are just fantastic.’ That said, Murphy doesn’t necessarily want to lose portfolio companies, because he thinks ‘more often than not they are being taken out on the cheap’.

HOW THE COMPANY FINDS FIRMS WITH RECOVERY POTENTIAL

Murphy studiously avoids companies with high leverage, be it operating or financial leverage. This means companies whose operating costs are largely fixed regardless of levels of activity and/or firms with lots of debt.

‘The real killer is when you mix the two together and thing go badly,’ explains Murphy. ‘That’s when the finances come under strain and the dividend is one of the first things to go.’

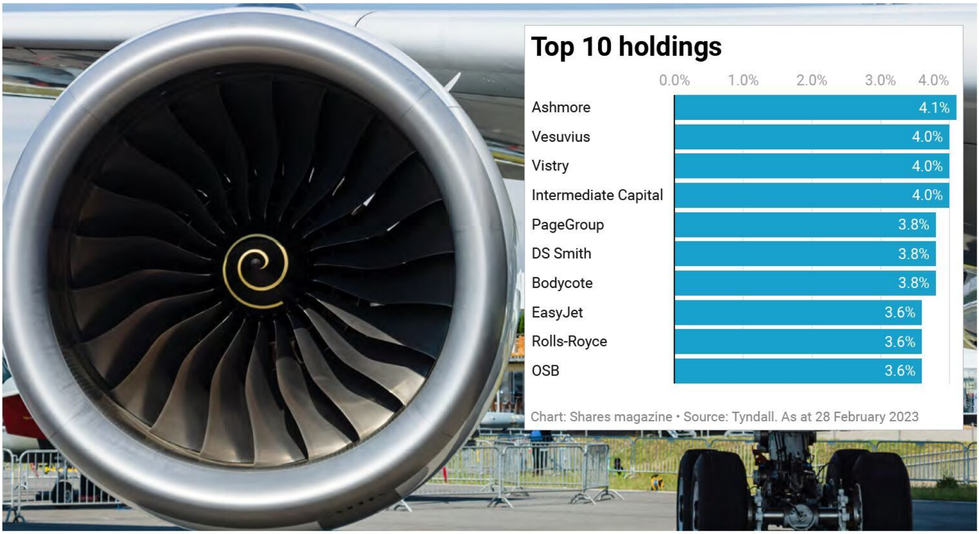
Among the dividend growth opportunities he invests in are what he calls ‘recovery cash flow’ situations. He loves buying franchises that are ‘really solid but have just lost their way or had a difficult period, but where we are confident the cash flow and dividends will recover quite strongly’.

Examples already in the portfolio include **WH Smith (SMWH)** ‘essentially a travel retail business now’ and low-cost carrier **EasyJet (EZJ)**, which has seen passenger numbers recover while facing oil price and wage pressures. Another case in point is **Rolls-Royce (RR.)**, ‘a fantastic performer for the fund for the last six months, the market has really got excited about the new chief executive (Tufan Erginbilgic) and what he might do with the business, plus the long-haul aviation piece is

Tyndall Real Income has impressed since the height of the Covid sell-off

Fund	Performance since pandemic lows (%)
Merian UK Equity Income P Acc GBP	87.1%
VT Tyndall Real Income Acc	**83.3%**
UBS UK Equity Income C Acc	82.6%
Allianz UK Listed Equity Income C Inc	81.8%
GAM UK Equity Income Z Semi Annual Inc	80.1%
Scottish Widows Global Environmental Solutions X	76.9%
JOHCM UK Equity Income A Acc	75.6%
Schroder Income Z Acc	75.5%
TM Redwheel UK Equity Income R Acc GBP	74.4%
BNY Mellon UK Income B Acc	70.7%
Courtiers UK Equity Income Retail	68.2%
L&G UK Equity Income I Acc	67.2%
abrdn UK High Income Equity Ret Platform 1 Acc GBP	65.6%
Schroder Income Maximiser Z Acc	65.5%
Vanguard FTSE UK Equity Income Index Acc GBP	65.3%
SUTL Cazenove Charity Equity Income S Inc	65.1%
SPW Multi-Manager UK Equity Income B Acc GBP	64.3%
Slater Income A Inc	63.0%
Man GLG Income B Ret Inc	62.9%
Schroder UK Alpha Income Z Inc	62.9%
Artemis Income I Inc	62.9%

Table: Shares magazine • Source: FE Analytics: Data from 20 March 2020 to 30 March 2023. Total return in GBP



Top 10 holdings

Chart: Shares magazine • Source: Tyndall. As at 28 February 2023

kicking in now. The more flying hours you have, the more the engines need serving and maintaining.'

MANAGER THINGS CONSUMER GLOOM IS OVERDONE

Despite the cost-of-living squeeze, Murphy believes the consumer will prove to be 'more resilient than we've all been worried about' and expresses this view through ownership of some attractively valued UK domestics.

These include **Vistry (VTY)**, the Greg Fitzgerald-guided housebuilder-to-regeneration specialist which delivered a surprisingly positive assessment of its outlook for 2023 alongside 2022 results, lender-to-retail savings business **OSB (OSB)** and cash-generative homewares retailer **Dunelm (DNLM)**.

He is also constructive on home improvement retailer **Wickes (WIX)**, the David Wood-led DIY products purveyor which is consistently taking market share and is 'a bit of a misunderstood business'.

While most people think of Wickes as a 'low quality, own brand DIY type business', it is in fact a digitally led operator with store economics that are 'much more powerful than virtually anyone else in the sector'. Murphy says Wickes's stores are smaller than those of **Kingfisher (KGF)**–owned B&Q and only have about 9,000 stock lines in store. Wickes has 'very high stock turns' and 'a huge focus' on the digital channel. 'Something like two thirds of all sales originate from the app or online, but 98% of those sales still get fulfilled through a store, so the economics of that and the return on capital are fantastic'. And Wickes' shares are 'unbelievably cheap'.

New purchases include **Ashmore (ASHM)**, the cash-rich emerging markets asset manager guided by Mark Coombs, as well as FTSE 250 recruiter **PageGroup (PAGE)**. Murphy says the former has a 'rock solid balance sheet with excess cash and pays a 6% yield while you wait for that turn in performance', while the special dividend-paying latter offers a play on a recruitment market likely to prove 'far more resilient than the market is pricing'.

While he likes the management teams and franchises of both names, Murphy recently sold public transport operator **National Express (NEX)** and pubs group **JD Wetherspoon (JDW)**, as the scale of the cost inflation they've absorbed means profitability 'has not recovered to the same degree I'd hoped'.

By **James Crux**
Funds and Investment Trusts Editor

ADVERTISING PROMOTION

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Turning insight into opportunity

Equity markets at both home and abroad have experienced significant volatility in recent months. While lower valuations could represent a great buying opportunity, it's also essential to recognise that not every undervalued situation is special. Some unloved stocks are cheap for good reason.

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SHARES
Alex Wright
Portfolio Manager
Fidelity Special Values PLC

Past performance

	Feb 2018 - Feb 2019	Feb 2019 - Feb 2020	Feb 2020 - Feb 2021	Feb 2021 - Feb 2022	Feb 2022 - Feb 2023
Net Asset Value	0.3%	−3.9%	8.9%	21.2%	11.6%
Share Price	2.7%	−6.0%	10.2%	22.6%	3.7%
FTSE All Share Index	1.7%	−1.4%	3.5%	16.0%	7.3%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 28.02.2023, bid-bid, net income reinvested. ©2023 Morningstar Inc. All rights reserved.
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What to do in an 'everything, everywhere, all at once' market?

There is so much to think about right now but don't let that paralyse you into inaction

How do you react when you are overwhelmed? A common response is to be paralysed into inaction or to panic and make hasty decisions.

These are both risks for investors right now. One could easily look at stories about banking crises, volatile rate expectations, geopolitical tensions and inflationary pressures and either sit on your hands in quiet despair or sell everything and put the cash in the bank.

While it goes without saying that you need to make the right financial decisions for you and your family there are strong arguments for sticking to your investment strategy, keeping your eyes firmly fixed on your longer-term goals and trying to ignore the background noise in the market.

This is easier said than done. Referencing the recent Oscar-winning film, investment bank Berenberg describes this as an 'everything, everywhere, all at once' market. And at times it seems the world is serving as many narrative twists as the absurdist comedy drama.

Analysts Jonathan Stubbs, Edward Abbott and Leoni Externest comment: 'There is so much going on around the world and across financial markets that it can, at times, feel a little overwhelming. Our investment "senses" are under attack from all sides.'

They go on to observe: 'Investors need eyes wide open on a long list of risks: macro, inflation/rates, market, banks, politics/people, geopolitics, health, black swan risks. One direct consequence of this risk jamboree is a higher volatility regime across financial markets.'

So, how do we block out these fears and get on with using the markets as the proven money-making tool they have historically always been?

It goes back to what you can control as an individual. For one thing, you can limit the risk of being caught out by market timing by putting a regular amount of money to work each month which should help even out swings in the value of your investments.

Another important thing to do is some research. Maintaining focus does not mean sticking your head in the sand. Have a look at the performance of your portfolio and if something has done particularly poorly (or particularly well) it is worth a fresh consideration of said holding's merits.

You shouldn't sell just because an investment has underperformed but you would want to understand why it is struggling.

Has the strategy behind the fund, investment trust or company changed? Has something happened in their wider industry to handicap them or has sentiment turned against their sector? After all, the general rule of thumb is that a 'bad' stock in a 'good' sector will outperform a 'good' stock in a 'bad' sector.

Banks might look like bargains right now, offering extremely generous dividend yields but you could have made that argument at almost any point over the last 15 years and they have rarely, if ever, rewarded investors who have taken the punt and put money into them.

As this article explores there are still interesting value opportunities in the market, really good companies which are not currently getting the credit they deserve in their valuations. *Shares* will continue to help steer you through the current disorientating backdrop with a mixture of ideas, insight and education.

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Understanding buy now, pay later, how it works and the reasons to be wary

This is a small but fast-growing part of the consumer credit landscape in the UK

If you've bought something online recently you will no doubt have been bombarded with different ways to pay at the checkout, including at least one BNPL (buy now, pay later) option. A few years ago, BNPL providers were relatively rare, but they boomed during the pandemic, when online shopping also boomed, and the market has taken off since then.

It means that now shoppers are often offered two, three or even four different BNPL providers at their virtual checkout, while some retailers have launched their own version to direct shoppers to. Debt isn't a new thing, people have used credit cards and store cards for years, but the marketing and branding of BNPL makes it seem unlike traditional debt and there have been complaints that people aren't aware of the fees involved and the implications for their credit file.

WHAT IS BUY NOW, PAY LATER?

It's the newest form of debt that allows you to split the cost of items across different instalments. For example, Klarna, one of the biggest providers, let's you split the cost of an item into three payments. So, if you buy a £30 item online, you could pay for it in three £10 instalments. No interest is charged during that time, making it very appealing to shoppers.

Other options allow to you to just delay the payment for a month, but you pay it all in one payment. BNPL were initially mainly used to help people who ordered lots of clothes from an online shop but were intending to return lots of them, because they didn't fit or suit them.

It meant that they only had to pay for what they kept, rather than paying for it all upfront and then waiting for a refund. However, now the market has evolved and you can split the cost of almost any online purchase. Deliveroo recently added it as an option, so you can split the cost of your takeaway pizza into three payments, while at the other end of the spectrum Harrods has adopted Klarna, meaning you could split the cost of a £69,000 Bulgari watch into three instalments.

HOW BIG IS THE MARKET?

It's tricky to put an exact size on the BNPL market as there is no central source for the various companies offering the service. But the Financial Conduct Authority says that use of BNPL quadrupled in the pandemic year of 2020 and that by early 2021 the market was worth £2.7 billion and five million people had used BNPL at some point in the previous year.

However, a report from Visa claims the BNPL market in 2020 in the UK was closer to £6.4 billion in size and that it was expected to grow to £37 billion by 2026. In comparison, the nation has £210 billion outstanding on all forms of consumer credit, so BNPL is still a fraction of that, but it is growing fast.

HOW DOES IT DIFFER TO NORMAL DEBT?

Traditionally you would apply for credit, fill out an application form and then be approved up to a certain credit limit (or denied). However, with BNPL the approval comes instantly, often with no reference to your credit report. It means that people can access the debt very easily, with critics claiming that the speed of the process means people aren't always aware of what they are applying for. It also means that someone with poor credit history could be approved for BNPL debt with numerous different providers without more scrupulous checks.

Sue Anderson, from StepChange, a debt charity, says: 'Buy now, pay later services don't give individuals enough time or protection to stop, pause and understand the consequences of their purchase. Sometimes this even means people end up using BNPL at the online checkout without actually realising they have signed up.'

FRAGILE
FRAGILE

HOW DO BNPL PROVIDERS MAKE MONEY?

BNPL providers make money in two ways. They charge a payment processing fee to the retailer, much like a credit card company would. But many also charge late payment fees if you miss an instalment. Klarna, for example, charges a late fee of £5 if you miss a payment, or 25% of the order value if it's less than £20. That late fee applies per payment instalment, meaning that you could be charged £10 in total if you're late paying all three instalments.

Klarna does say it will give you warning that a payment is going to be made, will attempt to collect the payment multiple times and will give you 14 days after the payment is due before it charges the late fee. Laybuy, another large provider which lets people pay in six instalments, will charge a £6 late fee 24 hours after a missed payment and another £6 fee if payment still hasn't been made seven days later (up to a maximum of £24).

Usually these missed payments will be recorded on your credit file, meaning you have a negative mark because of them. And ultimately with most providers, if you don't pay the debt then it will be passed on to a debt collection agency.

IS THE MARKET REGULATED?

The market is not regulated but the Financial Conduct Authority has a proposal out about how it will regulate the market. Until now the market hasn't come under the regulator's authority and it's taken a long time to even get a proposal.

The plans include BNPL firms checking that users can afford the loans, as well as making key information and charging structures much clearer to consumers. The regulator has also warned about potentially misleading advertising, so it will likely crack down on that area too.

On top of that, if the industry is regulated it means consumers can go to the Financial Ombudsman Service if they have a complaint with a provider. Launched in February, the consultation will last for eight weeks, and then it will take months longer before any plans are implemented.

By **Laura Suter**
AJ Bell Head of Personal Finance

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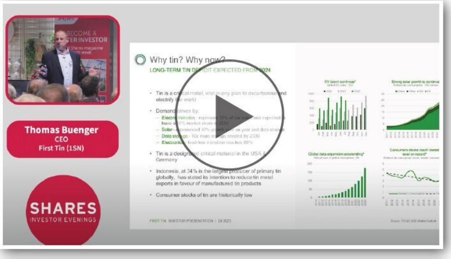
Thomas Buenger
CEO
First Tin (1SN)
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EV boom continues*
Strong solar growth to continue
Global data expansion accelerating*
Consumers stocks reach lowest level on record*

Why tin? Why now?

LONG-TERM TIN DEFICIT EXPECTED FROM 2024

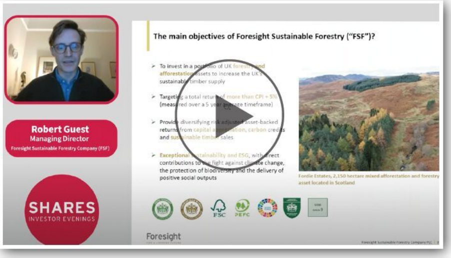
- Tin is a critical metal, vital in any plan to decarbonise and electrify the world
- Demand driven by:
  - Electric Vehicles - represent 15% of car sales and expected to have a 40% market share in 2030
  - Solar - experienced 40% growth year on year and data storage
  - Data storage - 10x more storage needed by 2030
  - Electronics - lead-free transition reaches 80%
- Tin is a designated critical material in the USA & Germany
- Indonesia, at 34% is the largest producer of primary tin globally, has stated its intention to reduce tin metal exports in favour of manufactured tin products
- Consumer stocks of tin are historically low

FIRST TIN INVESTOR PRESENTATION | Q1 2023

First Tin (1SN)

Thomas Buenger, CEO

First Tin (1SN) is led by a team of renowned specialists, First Tin is focused on becoming an ethical, reliable, and sustainable tin supplier in conflict-free, low political risk jurisdictions through the rapid development of high value, low capex tin assets in Germany and Australia. Tin is a critical metal, vital in any plan to decarbonise and electrify the world.


Robert Guest
Managing Director
Foresight Sustainable Forestry Company (FSF)
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The main objectives of Foresight Sustainable Forestry ("FSF")?

- To invest in a portfolio of UK forestry and afforestation assets to increase the UK's sustainable timber supply
- Targeting a total return of more than CPI + 5% (measured over a 5 year average timeframe)
- Provide diversifying risk adjusted asset-backed returns from capital appreciation, carbon credits and sustainable timber sales
- Exceptional sustainability and ESG, with direct contributions to the fight against climate change, the protection of biodiversity and the delivery of positive social outputs

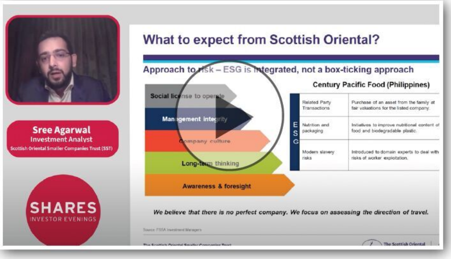
Fordie Estates, 2,150 hectare mixed afforestation and forestry asset located in Scotland

Foresight Sustainable Forestry Company PLC

Foresight Sustainable Forestry Company (FSF)

Robert Guest, Richard Kelly,
Managing Directors

Foresight Sustainable Forestry Company (FSF) offers investors direct and liquid access to the attractive investment characteristics of UK forestry and afforestation projects.


Sree Agarwal
Investment Analyst
Scottish Oriental Smaller Companies Trust (SST)
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Social license to operate
Management integrity
Company culture
Long-term thinking
Awareness & foresight
ESG
The Scottish Oriental

What to expect from Scottish Oriental?

Approach to risk – ESG is integrated, not a box-ticking approach

Century Pacific Food (Philippines)

Related Party Transactions	Purchase of an asset from the family at fair valuations for the listed company.
Nutrition and packaging	Initiatives to improve nutritional content of food and biodegradable plastic.
Modern slavery risks	Introduced to domain experts to deal with risks of worker exploitation.

We believe that there is no perfect company. We focus on assessing the direction of travel.

Source: FSSA Investment Managers

Scottish Oriental Smaller Companies Trust (SST)

Sree Agarwal, Investment Analyst

The investment objective of the Scottish Oriental Smaller Companies Trust plc is to achieve long-term capital growth by investing mainly in smaller Asian quoted companies with market capitalisations under US$5,000m, or the equivalent thereof, at the time of investment. Asia is deemed to include the Indian subcontinent and includes Japan and Australasia.

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Russ Mould: Insightful commentary on market issues

Five ways to spot if inflation, deflation or stagflation is coming

The key indicators to help you stay on top of what is happening to the economy and markets

Whatever the outcome of the banking wobble, which for now seems contained to US regional lenders and one badly run Swiss institution, one possibility is that it constrains lending and credit growth and hits the wider economy.

Amid the wider loss of trust, senior loan and credit risk officers may now be more wary to lend; banks may wish to keep more capital on their balance sheet for fear of deposit flight; and corporations in particular may be reluctant to take on more debt in an environment of higher bond yields.

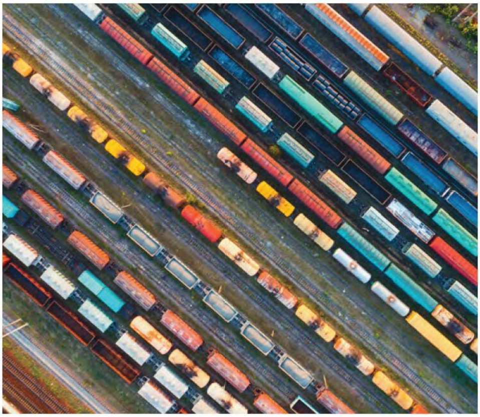
Only time will tell whether these fears are borne out, but this discussion puts additional focus on the debate over whether inflation, deflation or stagflation is the ultimate outcome of the post Great Financial Crisis era, ultra-loose monetary policy experiments, a pandemic, trade wars, the worst war in Europe for more than seventy years and all.

Two months ago this column flagged how one of its favourite indicators, the Dow Jones Transportation index, looked like it had hit the buffers. Lo and behold, doubts over the overall health of the US economy have crept in and stock markets have become more volatile.

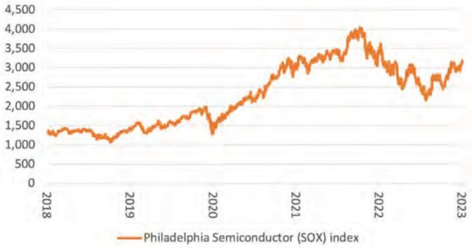
This is because the scenario priced in by the rally from last autumn's lows – cooling inflation, lower interest rates and a soft landing (or no landing at all) – now feels less likely. Five more indicators (aided by a sixth) may help investors spot what is coming next and allocate capital accordingly. All can be tracked, for free, on the internet.

FOUR AGAINST THE FIELD

The first indicator is this column's old friend the Philadelphia Semiconductor index, or SOX. The silicon chip industry is worth $600 billion a year and chips are everywhere from smartphones to cars and robots to laptops, while chip stocks are beloved by momentum players who feast off earnings upgrades and recoil from downgrades. The SOX was early to price in 2022's recession fears. It now seems to be pricing in a renewed upswing in activity.



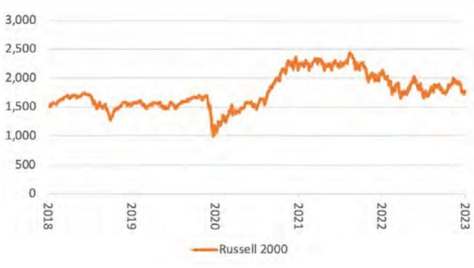
The SOX suggests better times lie ahead



Source: Refinitiv data

That could point to inflation, too, but at least it represents some good news. Small cap stocks seem far less convinced. America's Russell 2000 is going nowhere fast to paint a less encouraging picture of the economic outlook for the world's largest economy (and, by extension, for the rest of us).

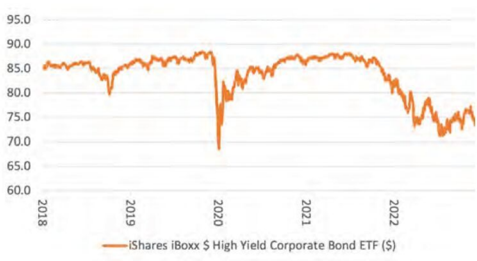
Small caps are still struggling



Source: Refinitiv data

A darker picture still emerges from high-yield (or 'junk') bonds. Highly indebted firms are more geared into economic upturns (which boost cashflow and their ability to pay interest on time) and downturns (which have the opposite effect). The **iShares iBoxx $ High Yield Corporate Bond ETF (HYG:NYSE)** tracks and delivers the performance, minus its fees, of nearly 1,200 'junk' bonds and it has a trading history that goes back to 2007. It has dipped below $80 only four times in its history – 2008 (great financial crisis), 2016 (mid-cycle growth stumble), 2020 (Covid) and now. This suggests economic trouble, and perhaps rapid disinflation or even deflation, lies ahead.

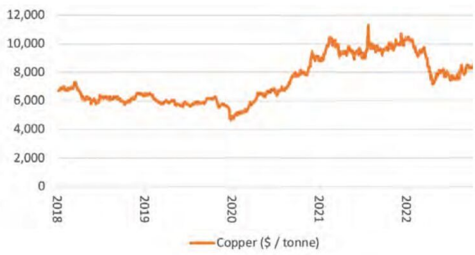
High yield debt is flagging trouble ahead



Source: Refinitiv data

Better news comes from an industrial metal. 'Dr Copper' is so called because it is seen as a good guide to global economic health, because its malleability, ductility and conductivity mean it has so many industrial uses, from cars to building construction to consumer goods. The metal is trading at almost $9,000 a tonne and rallying.

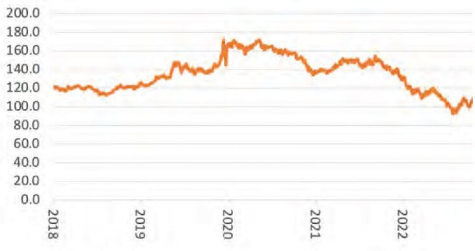
Dr Copper is pointing to inflation (or stagflation?)



Source: Refinitiv data

However, that could also be indicative of the worst of all worlds – stagflation. The ETF which tracks long-dated US Treasuries seems to be frightened of this, looking at its soggy price chart.

US long-dated bond ETF seems preoccupied by stagflation



Source: Refinitiv data

BLACK SPOT

Stagflation still seems the least likely outcome, but inflation is proving stickier than some economists had hoped. One other asset might have a big say in the ultimate outcome and that is oil. The lower the price of crude goes, the less attention it gets, but if the recent spike in oil caused by a surprise OPEC output cut is sustained it could thoroughly puncture hopes for a peak in inflation, rate cuts and a soft landing in one go.

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CAKE BOX (CBOX)

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The company generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom. All of our products are 100% egg free. The founders of Eggfree Cake Box follow a strict lacto vegetarian diet, and that is how they came up with idea for the company.

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What do changes in the Budget mean for ‘carry forward’ pension contributions?

How the rules work around using allowances from previous years and where the limits stand

What do the Budget changes mean for pensions ‘carry forward’? Will I be able to contribute more to my pension using carry forward in 2023/24? I earn just over £100,000 a year and contributed approximately £20,000 a year to my pension in each of the last three tax years.
Anonymous

Tom Selby, AJ Bell Head of Retirement Policy, says:

UK pension savers are entitled to an overall ‘annual allowance’ for pension contributions each tax year, covering personal contributions, tax relief and employer contributions. In 2022/23, that annual allowance is set at £40,000, but in 2023/24 it will increase to £60,000.

In addition, your personal contributions are limited to 100% of your UK earnings. That means someone earning £30,000 in 2022/23 can personally pay in a maximum of £24,000 with £6,000 tax relief during that tax year. Employer contributions can be on top of this.

If you exceed your annual allowance, an annual allowance tax charge will be levied by HMRC. Effectively the excess amount is added to your taxable income for the year and income tax charged accordingly. For example, if you are £10,000 over your allowance and your income is £80,000 a year you will be charged tax at 40% as this is the rate you would pay on income between £80,000-£90,000.

To give pension savers extra flexibility, ‘carry forward’ rules allow you to use unused annual allowance from the three previous tax years to boost your contributions in the current tax year.

Chancellor Jeremy Hunt’s decision to increase the annual allowance to £60,000 from 6 April means, taken to its limit, carry forward could allow someone to make a £180,000 pension contribution in 2023/24 without being hit with an annual allowance tax charge. This would comprise their £60,000 annual allowance for 2023/24 plus three chunks of £40,000 annual allowance from 2020/21, 2021/22 and 2022/23.

Carry forward can be particularly useful for business owners or anyone who is trying to make up for lost time saving for retirement.

WHAT ARE THE RULES?

To carry forward unused annual allowance from a prior tax year, you need to have been a member of a pension scheme during that year.

Your personal contributions also remain restricted to 100% of your earnings during the current tax year – so if your earnings are £100,000, that is the maximum you can pay in. Though this doesn't cover employer contributions.

The maximum you can carry forward from any given tax year will be determined by your annual allowance in that tax year. This means if you were a very high earner affected by the annual allowance 'taper' in any of the years you are carrying forward from, this will be the most you can carry forward from that year.

For example, if in 2022/23 the taper reduced your annual allowance from £40,000 to £4,000, the most you could carry forward to 2023/24 would be £4,000.

Finally, if you have triggered the 'money purchase annual allowance' by taking a flexible withdrawal from your pension, you are barred from using carry forward in a defined contribution pension, like a SIPP. The main things that count as a flexible withdrawal are taking taxable income via flexi-access drawdown or a taxable ad-hoc lump sum direct from your pension.

HM Revenue & Customs
National Insurance

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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